Stephen C. Taylor
Acting Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **Pinelands Insurance Company Risk Retention Group, Inc.,** as of December 31, 2013

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Pinelands Insurance Company Risk Retention Group, Inc. ("Company")**, as of December 31, 2013 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department"). The Department reported on the financial condition of the Company in the attached Report on Examination ("Financial Condition Examination Report").

In accord with the provisions of D.C. Official Code § 31-1404 (c), it is hereby ordered, on this 30th day of June, 2015, that the attached Financial Condition Examination Report be adopted and filed as an official record of this Department.

In accord with D.C. Official Code § 31-1404 (c) (1), it is hereby additionally ordered that the Company shall comply with the recommendations in the attached financial condition examination report.

Pursuant to Section 31-1404(d) (1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d) (1) of the D.C. Official Code, the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of its directors wherein each of its Directors states under oath that they have received a copy of the adopted Financial Condition Examination Report and related order.

Pursuant to Section 31-1404(e) (1) of the D.C. Official Code, the Department will continue to hold the content of the above-referenced report as private and confidential information for a period of 10 days from the date of this Order.

Stephen C. Taylor
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

Pinelands Insurance Company Risk Retention Group, Inc.

AS OF

DECEMBER 31, 2013

NAIC NUMBER 12198

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Washington, D.C.
May 12, 2015

Honorable Chester A. McPherson
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Acting Commissioner McPherson:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

Pinelands Insurance Company Risk Retention Group, Inc.

hereinafter referred to as the "Company" or "Pinelands".

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2009 through December 31, 2013, including any material transactions and/or events noted occurring subsequent to December 31, 2013, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department"). The last examination was completed as of December 31, 2008 by the Department.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook") and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with applicable accounting principles, annual statement instructions, and compliance with domestic jurisdiction laws and regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2009 through 2013. We placed substantial reliance on the audited financial statements for calendar years 2009 through 2012, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2013. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2013. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

This examination resulted in a material adjustment to decrease the Company's surplus by $565,201. The majority of this adjustment resulted from a decrease in the amount of $330,817 to the Company's deferred tax asset as of December 31, 2013. See detailed explanations on these examination adjustments in NOTE 1 in the "Notes to Financial Statements" section of this Report.

This examination also disclosed significant compliance and operational findings, including internal control weaknesses related to the Company's operations and accounting. See detailed discussions regarding these findings in the "Comments and Recommendations" section of this Report.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope financial examination was conducted by the Department as of December 31, 2008, which covered the period November 1, 2004 through December 31, 2008. In the Report on the prior examination, dated November 30, 2009, the Department noted one exception condition and related recommendation. Our examination included a review to determine the current status of the recommendation in the prior exam report, and determined that the Company had satisfactorily addressed the recommendation.

SUBSEQUENT EVENTS

As indicated in "Financial Statements" section of this report, in its 2013 Annual Statement, the Company reported "Total adjusted capital" totaling $694,691 and "Authorized control level risk-based capital" totaling $441,570. Therefore "Total adjusted capital" was less than "Authorized control level risk-based capital". In addition, for purposes of our examination, as a result of examination adjustments, "Total adjusted capital" is reduced to $129,490, which is less than the statutory minimum capital and surplus requirement of $400,000. Therefore, for purposes of our examination, "Total adjusted capital" remains less than "Authorized control level risk-based capital", and total capital and surplus is below the minimum statutory requirement.

Subsequent to the filing of the 2013 Annual Statement, the Company submitted a Corrective Action Plan (“Plan”) to address the RBC shortfall, and as a result of the Plan, the Company received a capital infusion totaling $350,000 in June 2014. During the remainder of 2014, the Department closely monitored the Company’s underwriting results, results from operations, and overall financial condition. For the periods ending March 31, 2014, June 30, 2014, and September 30, 2014, the Company’s reported underwriting results and overall financial condition remained stable as compared to previous periods. Specifically, for the three-month period ended March 31, 2014 the Company reported “Net underwriting gain” totaling $159,338, “Net loss” totaling $178,072, and “Surplus as regards policyholders” totaling $866,620. For the six-month period ended June 30, 2014, the Company reported “Net underwriting loss” totaling $18,493, “Net loss” totaling $389,687, and “Surplus as regards policyholders” totaling $655,004. For the nine-month period ended September 30, 2014, the Company reported “Net underwriting gain” totaling $37,323, “Net loss” totaling $321,125, and “Surplus as regards policyholders” totaling $723,566. However, the Company’s reported underwriting results, results from operations, and overall financial condition deteriorated for the full-year period ending December 31, 2014.Specifically, for the period ended December 31, 2014, the Company reported “Net underwriting loss” totaling $1,709,689, “Net loss” totaling $2,064,415 and reported “Surplus as regards policyholders” totaling negative $1,019,724.

According to management of the Company, the December 31, 2014 underwriting loss primarily resulted from adverse development on prior year loss reserves. As a result of the Company’s results of operations and decline in surplus during 2014, management submitted a Corrective Action Plan (“2015 Plan”) on May 11, 2015. Included in the 2015 Plan is a proposed capital infusion totaling $2.6 million. The Department reviewed the 2015 Plan and on June 5, 2015 granted conditional approval to the Company’s 2015 Plan pending satisfactory responses to the Department’s questions and proposed conditions. As of June 11, 2015, the Department is awaiting the Company’s response.

The Company’s 2014 Annual Statement was filed May 8, 2015, subsequent to the March 2, 2015 deadline. According to management of the Company, the delay in filing was due to additional actuarial analysis deemed necessary by management prior to finalizing and filing the Annual Statement. In recognition of the delayed filing, and of the uncertainty regarding the financial condition of the Company prior to finalizing the Annual Statement, the Company voluntarily ceased writing all new and renewal business effective March 9, 2015 and agreed with the Department not to resume writing business without permission from the Department. As of June 11, 2015, the Company has not resumed writing business and has not requested permission from the Department to do so.

HISTORY

General:

The Company was incorporated as an association captive insurance company operating as a risk retention group under the captive insurance laws of the District of Columbia on November 5, 2004 and began operations on November 26, 2004. The Company provides commercial automobile liability insurance to public livery service providers in New Jersey, Pennsylvania (excluding the Philadelphia metropolitan area), and Delaware.

Membership:

The Company is owned by its members, which include the National Transportation Association ("NTA") and PCC Management Corporation ("PCC"). NTA and PCC offer access to the Company's insurance to the members of their organizations. The members of NTA and PCC are then issued individual certificates of insurance on the respective association's policy. The Company's amended articles of incorporation authorize the issuance of 2,000,000 shares of Class A common stock, 1,000,000 shares of Class B common stock and 3,000,000 shares of Class C common stock, each with a par value of $0.40 per share. The three classes of stock have the same rights and privileges except as follows: Holders of Class A stock are entitled to elect two directors and the holders of Class B and of Class C stock are entitled to elect one director per each class of stock; Class A shareholders must approve any amendment, restatement, modification or alteration to the Company's Articles of Incorporation or Bylaws, but Class B and Class C shareholder approval is not required for these actions; Class A shareholders must consent to any liquidation, dissolution, winding up or discontinuation of the insurance activities of the Company but Class B and Class C shareholder consent is not required for these actions. As of December 31, 2013, the Company had 1,767,993 shares of its Class A common stock issued and outstanding to NTA and 600,000 shares of its Class C common stock issued and outstanding to PCC.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT

Board of Directors and Officers:

The Company's directors serving as of December 31, 2013 were as follows:

Name and State of Residence	Principal Occupation
Ronald P. Hambrecht, Chair Florida	Vice President Spectrum Transportation Agency, LLC
Joseph Gabbay New Jersey	General Manager Germantown Cab
Ronald P. Hambrecht Jr. New Jersey	Vice President Spectrum Transportation Agency, LLC

The Company's officers serving as of December 31, 2013 were as follows:

Name	Title
Ronald P. Hambrecht	President, Chairman
Joseph Gabbay	Vice President
Ronald P. Hambrecht Jr.	Vice Chairman, Treasurer and Secretary

Committees:

As of December 31, 2013, the Company's board of directors had not established any committees; however, the Company has designated its entire board of directors to act as the audit committee.

Conflicts of Interest:

The Company has adopted a conflict of interest policy which requires directors and officers to annually sign conflict of interest statements. In addition, the D.C. Municipal Regulations, section 26-3712, require that such statements from officers, directors and key employees be filed annually with the board of directors. However, we noted potential conflicts of interest that were not disclosed in the conflict of interest statements. Additionally, the Company was unable to provide conflict of interest statements for one director for the years 2010 to 2012, and for another director for the year 2009. See the "Comments and Recommendations" section of this report, under the caption "Conflicts of Interest", for further comments regarding these conditions.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on our review, it appears that the minutes documented the review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

Risk Services, LLC ("Risk Services") is the Company's captive manager providing management services, including accounting, regulatory services, and records retention services to the Company.

AFFILIATED PARTIES AND TRANSACTIONS

The Company is a member of a holding company group. As indicated in the "Membership" section of this Report, NTA held 75 percent of the Company's issued common stock as of December 31, 2013, and PCC held 25 percent of the issued common stock. Ronald P. Hambrecht owns 40 percent of NTA and his wife, Linda A. Hambrecht owns the remaining 60 percent. Mr.

Hambrecht is also the President of the Company and is also the sole owner of the Company's claims administrator, NTA Associates, Inc. ("NTA Associates").

The Company receives services, including underwriting, policy maintenance, and premium billing services, from Spectrum Transportation Agency, LLC ("Spectrum"), which is owned by Insurance Office of America ("IOA"). Two persons serving as officers and directors of Pinelands are employed by Spectrum, and one is a common shareholder of IOA. Specifically, Ronald P. Hambrecht and Ronald P. Hambrecht, Jr., both officers and directors of Pinelands, are employed by Spectrum, and Ronald P. Hambrecht is also a common shareholder of IOA.

All affiliate service agreements were approved by the Department and our review did not disclose unusual terms.

FIDELITY BOND AND OTHER INSURANCE

The Company has no employees and its daily business operations are managed by various service providers. Although the Company itself has no fidelity bond coverage, its service providers maintain various forms of insurance coverage. Specifically, the Company's captive manager, Risk Services, LLC, maintains professional liability, errors and omissions, and fidelity bond coverage in the amount of $10,000,000 and the Company's administrator, Spectrum, maintains a professional liability policy with a $1,000,000 limit per occurrence and in the aggregate. This provides adequate coverage based on NAIC guidelines and contractual requirements.

In addition, the Company maintains directors and officers liability coverage, with $1,000,000 per occurrence and aggregate limits.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed in the District of Columbia and was registered as a risk retention group in the states of New Jersey, Pennsylvania, and Delaware. During 2013, the Company reported direct premiums written totaling $4,806,303, with 57 percent ($2,745,614) of premiums written in New Jersey, 43 percent ($2,060,689) written in Pennsylvania and no premium written in Delaware.

The Company provides commercial automobile liability insurance to public livery service providers in New Jersey, Pennsylvania and Delaware. The Company offers claims made and occurrence policies at limits ranging from $30,000 per occurrence, $15,000 per person and $30,000 in the accident aggregate to $100,000 per occurrence to $100,000 per vehicle and

$300,000 in accident aggregate. For PIP coverage, the Company offers limits of $5,000 per occurrence and $10,000 in the accident aggregate.

The Company has no employees and its daily business operations are managed by its captive manager and various service providers. During the examination period and as of the date of this Report, the Company's captive manager, Risk Services, provided the Company with accounting, regulatory services, records retention and reinsurance intermediary services from its offices in Sarasota, Florida. As discussed in the "Affiliated Parties and Transactions" section, NTA Associates functions as the Company's claims administrator, while Spectrum operates as the administrator, providing policy management and administration.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The financial position of the Company and its loss experience for the years under examination is presented in the following table, which is prepared from information contained in the Company's annual statements filed with the Department. The amounts reported in the table for the year ended December 31, 2013 are determined by this examination.

	2013	2012	2011	2010	2009
Total admitted assets*	$ 4,663,431	$ 4,381,309	$ 3,724,442	$ 8,102,930	$ 8,875,205
Total liabilities*	$ 4,533,941	$ 3,434,953	$ 3,120,527	$ 7,481,258	$ 8,277,747
Total capital and surplus**	$ 129,490	$ 946,356	$ 603,915	$ 621,672	$ 597,458
Net cash from operations	$ (441,276)	$ (545,005)	$ (425,525)	$ (1,183,251)	$ (92,175)
Total adjusted risk-based capital**	$ 129,490	$ 946,356	$ 603,915	$ 621,672	$ 597,458
Authorized control level risk-based capital**	$ 441,570	$ 306,780	$ 337,411	$ 345,586	$ 360,508
Gross written premium	$ 4,806,303	$ 4,077,683	$ 2,898,080	$ 3,057,070	$ 4,847,350
Ceded premiums written	$ 3,364,412	$ 2,854,378	$ 2,028,656	$ 2,139,949	$ 3,400,019
Premiums earned	$ 1,213,245	$ 1,022,840	$ 900,625	$ 1,238,021	$ 1,511,466
Net underwriting loss**	$ (885,951)	$ (160,714)	$ (328,626)	$ (815,463)	$ (478,173)
Net investment income (loss)	$ (2,462)	$ (2,248)	$ (1,287)	$ 825	$ 7,010
Net realized capital gains	$ -	$ -	$ -	$ -	$ -
Net loss**	$ (1,396,864)	$ (107,559)	$ (217,757)	$ (509,085)	$ (342,454)
Net underwriting gain to PHS	-684.2%	-17.0%	-54.4%	-131.2%	-80.0%
Net written premium to PHS	1113.5%	129.3%	144.0%	147.5%	242.2%
Losses and LAE incurred	$ 1,876,896	$ 962,857	$ 923,058	$ 2,094,450	$ 1,845,656
Other underwriting expenses incurred	$ 222,300	$ 220,697	$ 306,193	$ (40,966)	$ 143,983
Net loss ratio	154.7%	94.1%	102.5%	169.2%	122.1%
Expense ratio	18.3%	21.6%	34.0%	-3.3%	9.5%

*The decrease in assets and liabilities from 2010 to 2011 is primarily due to the adoption of the Department's requirement to present Losses, Loss adjustment expenses and Unearned premium reserves on a net basis as opposed to the GAAP presentation of gross reserves used in 2010 and prior years.

**See detailed explanation regarding 2013 "Total capital and surplus" and "Net loss", and 2013 risk-based capital levels, in NOTE 5 in the "Notes to Financial Statements" section of this Report. District of Columbia risk retention groups were not required to calculate and file risk-based capital prior to 2012, and were not subject to provisions of the risk based capital law . However, Pinelands voluntarily calculated and filed its risk-based capital for the years 2009, 2010 and 2011. This information is presented here for informational purposes only.

REINSURANCE

Effective November 30, 2011, the Company entered into a quota share reinsurance agreement with Wesco Insurance Company. Under the terms of the agreement, Pinelands ceded 70 percent of its premiums and losses. The maximum recoverable under the contract is limited to 120 percent of gross written premium subject to the agreement. The agreement excludes risks located in Philadelphia, as well as the New Jersey cities of Newark, Trenton and Camden. This agreement expired November 30, 2014, but was amended to extend until March 1, 2015.

The Company previously had similar contracts in place with Amtrust International Insurance LTD from November 30, 2008 to November 29, 2011 and with Imagine International Reinsurance Limited prior to then. During the prior examination period, the Company commuted years ending November 30, 2005 through November 30, 2007. As a result of these reinsurance commutations, the Company has no reinsurance coverage on claims incurred up to November 30, 2007, and the Company retains full policy limits for all policies written during these periods.

The total ceded reinsurance premium paid in 2013 under these agreements was $3,364,412. As of December 31, 2013, the Company reported “Amounts recoverable from reinsurers” totaling $29,185 (representing amounts recoverable on paid losses) and approximately $4,150,000 in reinsurance recoverable on unpaid losses and loss adjustment expenses. If the reinsurers were not able to meet their obligations under the treaties, the Company would be liable for any defaulted amounts. Our review of the Company’s reinsurance treaties disclosed no unusual terms.

During our review of policies written, we noted that the Company had written in the cities excluded in the reinsurance agreement. Additionally, subsequent to December 31, 2013, the reinsurers (both Wesco Insurance Company and Amtrust International Insurance LTD) determined that premiums related to policies written by the Company in these excluded cities had been ceded to the reinsurers but these policies were not covered by the Company’s reinsurance treaty. These excluded policies were written during the 2008 to 2013 treaty periods. As a result, during 2014, the reinsurers returned all previously ceded premiums and losses related to the excluded policies to the Company and the Company was required to return all previously received commissions to the reinsurers. According to management of the Company, the retention of additional premiums and losses returned from the reinsurers caused additional retention of losses and loss adjustment expenses. Specifically, as of December 31, 2014, the Company’s case reserves were $515,403 higher and incurred but not reported reserves were $1,533,118 higher than if all policies had continued to be included under the reinsurance treaties. See the “Comments and Recommendations” section of this report, under the caption “Policies Excluded From Reinsurance Agreement” for further comments regarding the policies excluded from the Company’s reinsurance.

ACCOUNTS AND RECORDS

The primary location of the Company's books and records is at the offices of its captive manager, Risk Services, in Sarasota, Florida.

The Company's general accounting records consist of an automated general ledger and various subsidiary ledgers. Our examination disclosed issues regarding the Company's record-keeping, and disclosed internal control weaknesses and issues in the Company's accounting and reporting processes, including issues regarding claims records, premium receipt and accounting, and loss data integrity. These conditions are addressed throughout the "Comments and Recommendations" section of this Report.

STATUTORY DEPOSITS

As of December 31, 2013, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

FINANCIAL STATEMENTS

The following financial statements are prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), except for the conditions described in **NOTE 2**. These financial statements reflect the financial condition of the Company as of December 31, 2013, as determined by this examination:

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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

<u>ASSETS</u>

		December 31, 2013
Cash ($578,328), cash equivalents ($0) and short-term investments ($0)	$	578,328
Subtotals, cash and invested assets	$	578,328
Uncollected premiums and agents' balances in the course of collection		762,425
Amounts recoverable from reinsurers		29,185
Net deferred tax asset **(NOTE 1)**		151,508
Aggregate write-ins for other than invested assets:		
Letters of credit **(NOTE 2)**		1,220,000
Deferred expenses		270,699
Deductible recoverable **(NOTE 1)**		0
Deferred policy acquisition costs		365,644
Other receivables **(NOTE 1)**		221,879
Capital receivable **(NOTE 3)**		380,000
Ceding commission adjustment recoverable		683,763
Total	$	4,663,431

LIABILITIES, SURPLUS AND OTHER FUNDS

		December 31, 2013
Losses **(NOTES 1 and 4)**	$	1,608,085
Loss adjustment expenses **(NOTES 1 and 4)**		292,156
Other expenses (excluding taxes, licenses and fees)		131,377
Taxes, licenses and fees (excluding federal and foreign income taxes)		196,758
Unearned premiums		902,327
Ceded reinsurance premiums payable (net of commission)		182,592
Aggregate write-ins for liabilities:		
Deferred ceding commission		536,883
Ceding commission adjustment payable		683,763
Total Liabilities	$	4,533,941
Common capital stock	$	947,197
Surplus notes **(NOTE 2)**		200,000
Gross paid in and contributed surplus		1,690,796
Unassigned funds (surplus)		(2,708,503)
Surplus as regards policyholders **(NOTE 5)**	$	129,490
Total	$	4,663,431

STATEMENT OF INCOME

	2013
UNDERWRITING INCOME	
Premiums earned	$ 1,213,245
DEDUCTIONS	
Losses incurred **(NOTE 1)**	$ 1,464,338
Loss expenses incurred	412,558
Other underwriting expenses incurred	222,300
Total underwriting deductions	$ 2,099,196
Net underwriting loss	$ (885,951)
INVESTMENT INCOME	
Net investment income earned	$ (2,462)
Net realized capital gains	0
Net investment gain	$ (2,462)
Net loss after dividends to policyholders, after capital gains and before all other federal and foreign income taxes	$ (888,413)
Federal and foreign income taxes incurred **(NOTE 1)**	508,451
Net loss	$ (1,396,864)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008	$	865,218
Net loss, 2009		(342,454)
Surplus adjustments: Paid in		74,694
Net change in surplus as regards policyholders, 2009		(267,760)
Surplus as regards policyholders, December 31, 2009	$	597,458
Net loss, 2010		(509,085)
Change in surplus notes		200,000
Capital changes: Paid in		243,197
Surplus adjustments: Paid in		90,102
Net change in surplus as regards policyholders, 2010		24,214
Surplus as regards policyholders, December 31, 2010	$	621,672
Net loss, 2011		(217,757)
Capital changes: Paid in		80,000
Capital changes: Transferred to surplus		(188,000)
Surplus adjustments: Paid in		120,000
Surplus adjustments: Transferred from capital		188,000
Net change in surplus as regards policyholders, 2011		(17,757)
Surplus as regards policyholders, December 31, 2011	$	603,915
Net loss, 2012		(107,559)
Capital changes: Paid in		180,000
Surplus adjustments: Paid in		270,000
Net change in surplus as regards policyholders, 2012		342,441
Surplus as regards policyholders, December 31, 2012	$	946,356
Net loss per examination, 2013		(1,396,864)
Capital changes: Paid in		232,000
Surplus adjustments: Paid in		348,000
Difference due to rounding		(2)
Net change in surplus as regards policyholders, 2013		(816,866)
Surplus as regards policyholders, December 31, 2013	$	129,490

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

The following changes to the Company's surplus have been recorded as a result of our examination (see **NOTE 1** in the "Notes to Financial Statements" section of this Report for further explanation of these adjustments):

Surplus as regards policyholders, December 31, 2013 per Annual Statement	$	694,691
Write off of Other receivables	$	122,932
Decrease to Net deferred tax asset	$	330,817
Write off of Deductible recoverable	$	18,444
Increase to Losses (reserves)	$	93,008
Surplus as regards policyholders, December 31, 2013 per examination	$	129,490

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Examination Adjustments:

DESCRIPTION	Per Company	Examination Adjustment	Note	Per Examination	Surplus (Increase) Decrease
Assets					
Net deferred tax asset	$ 482,325	$ (330,817)	(a)	$ 151,508	$ 330,817
Aggregate write-ins for other than invested assets:					
Other receivables	344,811	(122,932)	(b)	221,879	122,932
Deductible recoverable	18,444	(18,444)	(c)	0	18,444
Liabilities					
Losses and loss adjustment expenses reserves	1,807,233	93,008	(d)	1,900,241	93,008
Surplus					
Surplus as regards policyholders, December 31, 2013	$ 694,691	$ (565,201)		$ 129,490	$ 565,201

Note: The potential tax effects of these adjustments were not factored in to the adjustments presented here.

a) As of December 31, 2013, the Company reported a deferred tax asset (DTA) in the amount of $482,325. As part of the external audit performed by the Company's auditors, a valuation allowance in the amount of $330,817 was recorded against the DTA. Accordingly, for purposes of this examination, the DTA was reduced by $330,817. This adjustment also increased the Company's "Federal and foreign income taxes incurred" by the same amount, from $177,634 to $508,451.

b) As of December 31, 2013, the Company reported a receivable in the amount of $344,811 from a policyholder whose policy was cancelled effective April 25, 2014, at which time unearned premiums in the amount of $282,879 were used by the Company to offset this receivable balance. Subsequently, the Company had to pay $61,000 to a premium finance company due to contractual requirements related to the early cancellation of the policy. No payments have been received subsequent to December 31, 2013 from the policyholder for this outstanding balance. Accordingly, we posted an exam adjustment in the amount of $122,932 ($61,932 which was not offset by unearned premiums, plus $61,000 paid by the Company to the premium finance company) to decrease this receivable balance.

c) The Company’s deductible recoverable detailed listing dates back several years and there were no subsequent receipts in 2014 on the 2013 balance of $18,444. We therefore reduced the entire balance of the deductible recoverable as of December 31, 2013.

d) The Company reported “Losses” and “Loss adjustment expenses” reserves totaling $1,515,077 and $292,156, respectively. As further addressed in NOTE 4, we increased “Losses” and “Loss adjustment expenses” reserves by $93,008. For purposes of our examination, this adjustment was made to the Company’s “Losses” reserves and no part of the adjustment was allocated to “Loss adjustment expenses” reserves. This adjustment also increased “Losses incurred” by $93,008, from $1,371,330 to $1,464,338.

NOTE 2 – Letters of Credit and Surplus notes:

As of December 31, 2013, the Company’s assets included $1,220,000 in letters of credit in the possession of the District of Columbia Insurance Commissioner; and a $200,000 surplus note. The surplus note and related interest may not be paid without approval of the Department. Under the Captive Laws of the District of Columbia, letters of credit and surplus notes approved by the Department are allowed as admitted assets. Inclusion of the letters of credit and surplus note is not in accordance with GAAP.

NOTE 3 - Capital receivable:

As of December 31, 2013, with approval of the Department, the Company reported “Capital receivable” totaling $380,000. The Department’s approval was based on the condition that the capital was required to be infused in to the Company by the date of the filing of the Company’s Annual Statement. (This condition was met by the Company.)

NOTE 4 – Loss and Loss Adjustment Expenses Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves net of reinsurance totaling $1,515,077 and $292,156, respectively. These reserves represent management's best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2013. Of the Company's total gross reserve of approximately $5,955,000 for losses and loss adjustment expenses, approximately $4,148,000 is ceded to reinsurers. This amount is reported as a deduction from gross loss and loss adjustment expenses reserves. If the reinsurers were unable to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts. The Company's total net reserves for losses and loss adjustment expenses are $1,807,233. The Company does not discount its reserves.

The methodologies utilized by the Company's actuary to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2013, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary who concluded that the Company's reserves were within the range calculated by the Company's actuary. In addition, as part of our review of the Company's reserves, we engaged an independent actuary (examination actuary) to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute these reserves were reasonable and adequate.

However, the Company's carried "Losses" and "Loss adjustment expenses" reserves are near the low end of the Company's independent actuary's range of estimates, as illustrated below:

	Net Basis	Low	Central	High
1.	Independent Actuarial Range of Estimates	$ 1,805,229	$ 1,900,241	$ 2,280,289
2.	Company's reported reserves	1,807,233	1,807,233	1,807,233
3.	Dollar Difference	2,004	93,008	473,056

While companies may carry reserves at any point within the actuarial range, there is an expectation that management justify and support the rational for carrying reserves at a point below the actuary's central estimate. While management has responded to the Department's inquires for support for management's selected reserves, we concluded the information provided by management is insufficient to support carrying the reserves at a level below that of the independent actuarial central estimate. In addition, management's 2013 selected reserve amount is not supported by subsequent development of the 2013 reserves. Specifically, the Company's Annual Statement as of December 31, 2014 filed with the Department indicated that based on the Company's reported reserves as of December 31, 2014 compared to the reserves previously reported as of December 31, 2013, the reserves as of December 31, 2013 were significantly understated. We also note that in addition to the adverse development reported in the 2014 Annual Statement, the Company's Annual Statements filed with the Department for the years 2009, 2010, 2011, 2012, and 2013 indicated consistent adverse development of reserves reported in prior years.

Management's lack of sufficient support for the carried reserves, coupled with the aforementioned adverse development consistently reported by the Company during and subsequent to the examination period, resulted in the examination adjustment to increase loss reserves to the level of the independent actuary's central estimate. We also recommended to management that the Company book the loss and loss adjustment expense reserves at the central estimate of the actuarial range of reasonable reserves for all future financial filings. See further comments in the "Comments and Recommendations" section of this Report under the caption "Loss and Loss Adjustment Expenses Reserves".

NOTE 5 – Capital and Surplus and Risk-Based Capital:

In its 2013 Annual Statement, the Company reported "Total adjusted capital" totaling $694,691 and "Authorized control level risk-based capital" totaling $441,570. Therefore "Total adjusted capital" was less than "Authorized control level risk-based capital". In addition, for purposes of our examination, as a result of examination adjustments noted in NOTE 1, "Total adjusted capital" is reduced to $129,490, which is less than the statutory minimum capital and surplus requirement of $400,000. Therefore, for purposes of our examination, "Total adjusted capital" remains less than "Authorized control level risk-based capital", and total capital and surplus is below the minimum statutory requirement.

Subsequent to the filing of the 2013 Annual Statement, the Company submitted a Corrective Action Plan ("Plan") to address the RBC shortfall, and as a result of the Plan, the Company received a capital infusion totaling $350,000 in June 2014. See the "Subsequent Events" section of this report for further comments regarding the Department's continued monitoring of the Company's financial condition.

COMMENTS AND RECOMMENDATIONS

Claims Handling

The Company's claims are administered and processed by its affiliate, NTA Associates. Our examination disclosed the following:

1. We requested reserving histories for a selection of 30 open claims. However, we were informed by NTA Associates that reserving histories are not maintained and that only current reserves were available. **We recommend that reserving histories be maintained for the life of all claims, including explanations and supporting documentation for all reserve changes.**

2. NTA Associates' claims adjusters and claims manager have claims reserving and payment authority up to $30,000 for bodily injury and $5,000 for both property and PIP. However, claims can exceed these authority limits and there is no procedure and no designated person above the claims manager for approving claims reserves and payments above these limits. In instances where claims do exceed authority limits, the claims manager is able to "approve" these claims within the claims system because of the authority level granted to the claims manager through the claims manager's claims system user account. In our review of 30 open claims, we noted five claims where reserves or payment exceeded $30,000. These transactions were approved by the claims manager and no documentation of approval other than that of the claims manager existed. **We recommend that the Company develop a procedure for approving claims reserves and payments that exceed the approval authority of the claims adjusters and claims manager. In addition, we recommend that the claims manager's claims system authority level be restricted to the assigned approval authority. We also recommend that approvals for all reserving and claims payment activity be documented within the claims records and be available for review.**

3. During our review of 16 open claims for accident years 2012 and older, we noted two claims for which a determination had been made and noted in the file that the claims should be closed. **We recommend that open claims be periodically reviewed to determine whether they need to remain open or should be closed.**

4. During our review of 30 open claims, we noted one claim payment that was dated over a year past the date of settlement of the claim and another claim payment that was dated over six months past the date of settlement. **We recommend that claims payments be paid more timely, upon settlement of the claims.**

5. The Company's Claims Handling Agreement with NTA Associates includes Claims Procedures and Guidelines. However, we were informed by employees of NTA Associates that these guidelines are not utilized in administering the Company’s claims. **We recommend that the Company ensure NTA Associates utilizes the claims guidelines that are included in the Claims Handling Agreement with NTA.**

Premium Receivables

The Company reported “Uncollected premiums and agents’ balances in the course of collection” totaling $762,425, primarily representing amounts due from the Company’s affiliate, Spectrum Transportation Agency, LLC (“Spectrum”), which performs underwriting, policy maintenance, and premium billing and collection services for the Company. During our examination we noted the following:

1. Spectrum and the Company maintain a gross running balance of premiums receivable as well as the detailed policy-level receivable balances that make up the gross amount. However the detail of policy transactions (i.e., additional premiums added to the balance and payments received) are only maintained for the prior month. As a result of this lack of retained detail, it is difficult to verify the Company’s premiums receivable balance and the individual policy balances. **We recommend that premium receivable detail for each policy be maintained and retained for all periods in which the policy is in effect.**

2. We noted a lack of internal controls around Spectrum's receipt of premium payments. Specifically, all premium payments are received at Spectrum’s offices by an employee of Spectrum who forwards the payments to Insurance Office of America (IOA), the parent company of Spectrum, weekly via overnight mail for recording and deposit. The Spectrum employee does not log the payments received and forwarded IOA, and performs no follow up to determine if all amounts forwarded to IOA were eventually deposited. **We recommend that Pinelands require Spectrum to establish appropriate internal controls over the receipt and processing of premium payments received by Spectrum.**

3. The Company does not have a policy for establishing an allowance for uncollectible premiums receivable. **We recommend that the Company develop and submit to the Department a policy for establishing, on a quarterly basis, an allowance for doubtful accounts related to premiums receivable.**

Loss and Loss Adjustment Expenses Reserves

As previously indicated in NOTE 4 in the “Notes to Financial Statements” section of this Report, the Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling $1,515,077 and $292,156 respectively. Our examination disclosed the following:

1. The Company's carried "Losses" and "Loss adjustment expenses" reserves are near the low end of the Company's independent actuary's range of estimates. In addition, the Company's reported "Losses" and "Loss adjustment expenses" reserves as of December 31, 2012 were at the low end of the Company's independent actuary's range of estimates. Furthermore, as previously indicated in NOTE 4 in the "Notes to Financial Statements" section of this Report, the Company consistently reported adverse reserve development for years during and subsequent to the examination period, indicating that the Company's reserves have been consistently understated. **We recommend that the Company report its "Losses" and "Loss adjustment expenses" reserves at the actuary's central estimate for all future financial filings.**

2. Claims administration fees paid by the Company to the claims administrator, NTA Associates, are based on a percentage of premiums and are intended to cover all claims administration fees over the life of claims. However, the Company does not evaluate or record a reserve for adjusting and other expenses (AOE). Standard actuarial practice calls for evaluating the need for an AOE reserve, even if such expenses are prepaid. **We recommend that the Company evaluate annually, in conjunction with its independent actuary, the need for recording an AOE reserve.**

3. The Company's independent actuary identified several issues regarding the data provided by the Company to the independent actuary for use in evaluating the Company's reserves. According to the independent actuary, these issues have the potential to impact the loss reserve projections. **We recommend that the Company determine, in conjunction with its independent actuary, a resolution to address these data issues such that there will no longer be a potential impact on the reserve projections of the independent actuary.**

4. The Company last requested, in 2010, that its independent actuary determine whether or not a premium deficiency reserve (PDR) is needed. **We recommend that the Company request its independent actuary to determine annually if a PDR is indicated.**

<u>Policies Excluded from Reinsurance Agreement</u>

The Company's reinsurance agreements exclude risks located in Philadelphia, as well as the New Jersey cities of Newark, Trenton and Camden. However, we noted five policyholders with Camden addresses and two policyholders with Trenton addresses. As previously indicated in the "Reinsurance" section of this report, subsequent to December 31, 2013, the Company's reinsurers (both Wesco Insurance Company and Amtrust International Insurance LTD) determined that premiums related to policies written by the Company in these excluded cities had been ceded to the reinsurers during the 2008 to 2013 treaty periods. As a result, the reinsurers returned all previously ceded premiums and losses to the Company and the Company was required to return all previously received commissions to the reinsurers. **We recommend that the Company, in conjunction with its underwriting manager, Spectrum Transportation Agency, LLC, develop procedures to ensure policies are not written which are excluded from the Company's reinsurance agreement.**

Conflict of Interest Statements

As indicated in the "Conflicts of Interest" section of this report, the Company has adopted a conflict of interest policy which requires directors and officers to annually sign conflict of interest statements. In addition, the D.C. Municipal Regulations, section 26-3712, require that such statements from officers, directors and key employees be filed annually with the board of directors. However, the Company was unable to provide conflict of interest statements for one director for the years 2010 to 2012 and for another director for the year 2009. In addition, we noted potential conflicts of interest that were not disclosed in the conflict of interest statements. Specifically, potential conflicts of interest by board members that have ownership interest in affiliated companies were not reported in the conflict of interest statements. **We recommend that the Company ensure its officers and directors complete conflict of interest statements and file such statements with the board of directors on an annual basis in compliance with its own policy, as well as with the abovementioned section of the D.C. Municipal Regulations. In addition, we recommend that all potential conflicts be disclosed.**

CONCLUSION

Our examination disclosed that as of December 31, 2013 the Company had:

Admitted Assets	$	4,663,431
Liabilities and Reserves		4,533,941
Common Capital Stock		947,197
Surplus note		200,000
Gross Paid in and Contributed Surplus		1,690,796
Unassigned Funds (Surplus)		(2,708,503)
Total Surplus		129,490
Total Liabilities, Capital and Surplus	$	4,663,431

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2013, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. Except for the conditions noted in NOTE 5 in the "Notes to Financial Statements" section of this Report, we concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Amy Carter, CFE, Lewis & Ellis, Inc.
Lindsey Pittman, CFE, Lewis & Ellis, Inc.

The actuarial portion of this examination was completed by Kristine M. Fitzgerald, ACAS, MAAA, FCA and Steven P. Lattanzio, FCAS, MAAA, FCA of Actuarial & Technical Solutions, Inc.

Respectfully submitted,

Sarah Lucibello

Sarah Lucibello, CFE
Examiner-In-Charge
Lewis & Ellis, Inc.

Under the Supervision of,

Xiangchun Li

Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance, Securities and Banking

Government of the District of Columbia
Muriel Bowser, Mayor
Department of Insurance, Securities and Banking

DISB

Chester A. McPherson
Acting Commissioner

June 11, 2015

Mr. Ronald P. Hambrecht, President
Pinelands Insurance Company Risk Retention Group, Inc.
C/o Risk Services, LLC
2233 Wisconsin Ave, N.W. Suite 310
Washington, DC 20007

RE: Examination of **Pinelands Insurance Company Risk Retention Group, Inc.,** as of December 31, 2013

Dear Mr. Hambrecht:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of Pinelands Insurance Company Risk Retention Group, Inc. ("Company") as of December 31, 2013.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

The response must be in writing and shall be furnished to this Department by June 25, 2015. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

PINELANDS INSURANCE COMPANY
RISK RETENTION GROUP, INC.
2233 Wisconsin Ave., N.W.
Suite 310
Washington, D.C. 20007

June 25, 2015

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
Government of the District of Columbia
Department of Insurance, Securities & Banking
810 First Street, NE, Suite 701
Washington, D.C. 20002

Re: Pinelands Insurance Company Risk Retention Group, Inc. ("Pinelands")
NAIC Company Code: 12198; NAIC Group Code: 0000; FEIN: 20-1826016

Dear Mr. O'Donnell:

With respect to the Report of Examination ("Report") as of December 31, 2013 for the above-named company, please be advised that the content of the Report is accepted. With respect to the recommendations found in the report, Pinelands has the following comments:

Claims Handling

The Company's claims are administered and processed by its affiliate, NTA Associates. Our examination disclosed the following:

1. *We requested reserving histories for a selection of 30 open claims. However, we were informed by NTA Associates that reserving histories are not maintained and that only current reserves were available.* ***We recommend that reserving histories be maintained for the life of all claims, including explanations and supporting documentation for all reserve changes.***

The request could not be easily satisfied as the claims system does not readily provide that function, although the Company could find this information through the review of old loss runs. Hereforward, the claims TPA will being recording any reserve changes in the notes section.

2. *NTA Associates' claims adjusters and claims manager have claims reserving and payment authority up to $30,000 for bodily injury and $5,000 for both property and PIP. However, claims can exceed these authority limits and there is no procedure and no designated person above the claims manager for approving claims reserves and payments above these limits. In instances where claims do exceed authority limits, the claims manager is able to "approve" these claims within the claims system because of the authority level granted to the claims manager through the claims manager's claims system user account. In our review of 30 open claims, we noted five claims where reserves or payment exceeded $30,000. These transactions were approved by the claims manager and no documentation of approval other than that of the claims manager*

existed. ***We recommend that the Company develop a procedure for approving claims reserves and payments that exceed the approval authority of the claims adjusters and claims manager. In addition, we recommend that the claims manager's claims system authority level be restricted to the assigned approval authority. We also recommend that approvals for all reserving and claims payment activity be documented within the claims records and be available for review.***

The Company will communicate the recommendation to the claims TPA and will require that less authority is given to the claims manager and claims adjusters, and that greater oversight is provided by Pinelands' President.

3. *During our review of 16 open claims for accident years 2012 and older, we noted two claims for which a determination had been made and noted in the file that the claims should be closed.* ***We recommend that open claims be periodically reviewed to determine whether they need to remain open or should be closed.***

The Company will communicate the recommendation to the claims TPA.

4. *During our review of 30 open claims, we noted one claim payment that was dated over a year past the date of settlement of the claim and another claim payment that was dated over six months past the date of settlement.* ***We recommend that claims payments be paid more timely, upon settlement of the claims.***

The Company will communicate the recommendation to the claims TPA.

5. *The Company's Claims Handling Agreement with NTA Associates includes Claims Procedures and Guidelines. However, we were informed by employees of NTA Associates that these guidelines are not utilized in administering the Company's claims.* ***We recommend that the Company ensure NTA Associates utilizes the claims guidelines that are included in the Claims Handling Agreement with NTA.***

The Company will ensure that the claims TPA will utilize the claims guidelines that are included in the Claims Handling Agreement.

<u>Premium Receivables</u>

The Company reported "Uncollected premiums and agents' balances in the course of collection" totaling $762,425, primarily representing amounts due from the Company's affiliate, Spectrum Transportation Agency, LLC ("Spectrum"), which performs underwriting, policy maintenance, and premium billing and collection services for the Company. During our examination we noted the following:

1. *Spectrum and the Company maintain a gross running balance of premiums receivable as well as the detailed policy-level receivable balances that make up the gross amount. However the detail of policy transactions (i.e., additional premiums added to the balance and payments received) are only maintained for the prior month. As a result of this lack of retained detail, it is difficult to verify the Company's premiums receivable balance and the individual policy balances.* ***We recommend that premium receivable detail for each policy be maintained and retained for all periods in which the policy is in effect.***

The Company will require Spectrum to provide a reconciliation of uncollected premium to support the premium receivable amount recorded.

2. *We noted a lack of internal controls around Spectrum's receipt of premium payments. Specifically, all premium payments are received at Spectrum's offices by an employee of Spectrum who forwards the payments to Insurance Office of America (IOA), the parent company of Spectrum, weekly via overnight mail for recording and deposit. The Spectrum employee does not log the payments received and forwarded IOA, and performs no follow up to determine if all amounts forwarded to IOA were eventually deposited.* ***We recommend that Pinelands require Spectrum to establish appropriate internal controls over the receipt and processing of premium payments received by Spectrum.***

Spectrum will establish appropriate internal controls over the receipt and processing of premium payments.

3. *The Company does not have a policy for establishing an allowance for uncollectible premiums receivable.* ***We recommend that the Company develop and submit to the Department a policy for establishing, on a quarterly basis, an allowance for doubtful accounts related to premiums receivable.***

The Program Manager will determine the collectability of premium based upon the age of each receivable. Based upon the Program Manager's feedback and with the approval of the Department, the Company will propose a set period of time by which premium should be considered uncollectable.

<u>*Loss and Loss Adjustment Expenses Reserves*</u>

As previously indicated in NOTE 4 in the "Notes to Financial Statements" section of this Report, the Company reported "Losses" and "Loss adjustment expenses" reserves net of reinsurance totaling $1,515,077 and $292,156 respectively. Our examination disclosed the following:

1. *The Company's carried "Losses" and "Loss adjustment expenses" reserves are near the low end of the Company's independent actuary's range of estimates. In addition, the Company's reported "Losses" and "Loss adjustment expenses" reserves as of December 31, 2012 were at the low end of the Company's independent actuary's range of estimates. Furthermore, as previously indicated in NOTE 4 in the "Notes to Financial Statements" section of this Report, the Company consistently reported adverse reserve development for years during and subsequent to the examination period, indicating that the Company's reserves have been consistently understated.* ***We recommend that the Company report its "Losses" and "Loss adjustment expenses" reserves at the actuary's central estimate for all future financial filings.***

With respect to its position on where to book within the actuarial range, the Company booked to the central estimate for 2014.

2. *Claims administration fees paid by the Company to the claims administrator, NTA Associates, are based on a percentage of premiums and are intended to cover all claims administration fees over the life of claims. However, the Company does not evaluate or record a reserve for adjusting and other expenses (AOE). Standard actuarial practice calls for evaluating the need for an AOE reserve, even if such expenses are prepaid.* ***We***

recommend that the Company evaluate annually, in conjunction with its independent actuary, the need for recording an AOE reserve.

The Company will discuss evaluating an AOE reserve with its actuary in the 2015 Actuarial Report.

3. *The Company's independent actuary identified several issues regarding the data provided by the Company to the independent actuary for use in evaluating the Company's reserves. According to the independent actuary, these issues have the potential to impact the loss reserve projections.* ***We recommend that the Company determine, in conjunction with its independent actuary, a resolution to address these data issues such that there will no longer be a potential impact on the reserve projections of the independent actuary.***

The Company will work with its actuary to resolve the data issues highlighted in the Actuarial Report.

4. *The Company last requested, in 2010, that its independent actuary determine whether or not a premium deficiency reserve (PDR) is needed.* ***We recommend that the Company request its independent actuary to determine annually if a PDR is indicated.***

The Company has performed an internal PDR analysis at year end annually, however it will going forward request an annual PDR analysis from the actuary for the 2015 year and will continue to do so for subsequent years.

Policies Excluded from Reinsurance Agreement

The Company's reinsurance agreements exclude risks located in Philadelphia, as well as the New Jersey cities of Newark, Trenton and Camden. However, we noted five policyholders with Camden addresses and two policyholders with Trenton addresses. As previously indicated in the "Reinsurance" section of this report, subsequent to December 31, 2013, the Company's reinsurers (both Wesco Insurance Company and AmTrust International Insurance LTD) determined that premiums related to policies written by the Company in these excluded cities had been ceded to the reinsurers during the 2008 to 2013 treaty periods. As a result, the reinsurers returned all previously ceded premiums and losses to the Company and the Company was required to return all previously received commissions to the reinsurers. ***We recommend that the Company, in conjunction with its underwriting manager, Spectrum Transportation Agency, LLC, develop procedures to ensure policies are not written which are excluded from the Company's reinsurance agreement.***

The Company does not intend to write policies in future that are not included under the reinsurance agreement. Spectrum will develop procedures to ensure that all policies written are in compliance with the reinsurance agreement.

Conflict of Interest Statements

As indicated in the "Conflicts of Interest" section of this report, the Company has adopted a conflict of interest policy which requires directors and officers to annually sign conflict of interest statements. In addition, the D.C. Municipal Regulations, section 26-3712, require that such statements from officers, directors and key employees be filed annually with the board of directors. However, the Company was unable to provide conflict of interest

> *statements for one director for the years 2010 to 2012 and for another director for the year 2009. In addition, we noted potential conflicts of interest that were not disclosed in the conflict of interest statements. Specifically, potential conflicts of interest by board members that have ownership interest in affiliated companies were not reported in the conflict of interest statements.* ***We recommend that the Company ensure its officers and directors complete conflict of interest statements and file such statements with the board of directors on an annual basis in compliance with its own policy, as well as with the abovementioned section of the D.C. Municipal Regulations. In addition, we recommend that all potential conflicts be disclosed.***

The Company will ensure that future conflict of interest statements fully disclose any conflicts and that they are completed by all board members and officers.

Should you have any questions or need to reach me for any reason, please don't hesitate to contact me by telephone at (941) 373-1113 or by e-mail at acarlton@pboa.com.

Sincerely,

Andrew Carlton
Account Manager
Risk Services, LLC
As Insurance Manager For
Pinelands Insurance Company RRG

Stephen C. Taylor
Acting Commissioner

June 26, 2015

Mr. Ronald P. Hambrecht, President
Pinelands Insurance Company Risk Retention Group, Inc.
C/o Risk Services, LLC
2233 Wisconsin Ave, N.W. Suite 310
Washington, DC 20007

RE: Examination of **Pinelands Insurance Company Risk Retention Group, Inc.,** as of December 31, 2013

Dear Mr. Hambrecht:

We are in receipt of the June 25, 2015 response from Andrew Carlton, Account Manager, Risk Services, LLC, as Insurance Manager for **Pinelands Insurance Company Risk Retention Group, Inc.** ("Pinelands" or "Company"), regarding the Report on Examination of Pinelands as of December 31, 2013. Except for the following, the response is deemed adequate.

Examination Recommendation: Claims Handling (item number 2):

We recommended that the Company develop a procedure for approving claims reserves and payments that exceed the approval authority of the claims adjusters and claims manager. In addition, we recommended that the claims manager's claims system authority level be restricted to the assigned approval authority. We also recommended that approvals for all reserving and claims payment activity be documented within the claims records and be available for review.

Company Response to the Above Recommendation:

The Company will communicate the recommendation to the claims TPA and will require that less authority is given to the claims manager and claims adjusters, and that greater oversight is provided by Pinelands' President.

Department Response to the Company's Response:

As recommended, the Company shall develop a procedure for approving claims reserves and payments that exceed the approval authority of the claims adjusters and claims manager. This procedure shall be submitted to the Department by September 30, 2015, and shall include the requirement that the claims manager's claims system authority level be restricted to the assigned approval authority; and shall include the requirement that all reserving and claims payment activity be documented within the claims records and be available for review.

Examination Recommendations: Claims Handling (items number 3 and 4):

Item number 3: We recommended that open claims be periodically reviewed to determine whether they need to remain open or should be closed.

Item number 4: We recommended that claims payments be paid more timely, upon settlement of the claims.

Company Response to the Above Recommendations:

The Company will communicate the recommendation to the claims TPA.
(NOTE: Company response is identical for both recommendations.)

Department Response to the Company's Responses:

Management of Pinelands is ultimately responsible for ensuring these recommendations are addressed. Specifically, management shall ensure that open claims are periodically reviewed to determine whether they need to remain open or should be closed and shall ensure that claims payments be paid more timely.

Examination Recommendation: Premium Receivables (item number 1):

We recommended that premium receivable detail for each policy be maintained and retained for all periods in which the policy is in effect.

Company Response to the Above Recommendation:

The Company will require Spectrum to provide a reconciliation of uncollected premium to support the premium receivable amount recorded.

Department Response to the Company's Response:

As recommended, premium receivable detail for each policy shall be maintained and retained for all periods in which the policy is in effect.

Examination Recommendation: Premium Receivables (item number 3):

We recommended that the Company develop and submit to the Department a policy for establishing, on a quarterly basis, an allowance for doubtful accounts related to premiums receivable.

Company Response to the Above Recommendation:

The Program Manager will determine the collectability of premium based upon the age of each receivable. Based upon the Program Manager's feedback and with the approval of the Department, the Company will propose a set period of time by which premium should be considered uncollectable.

Department Response to the Company's Response:

Please submit the Company's policy regarding the set period of time by which premium should be considered uncollectable to the Department by September 30, 2015.

In conjunction with future financial analyses and/or financial examinations of Pinelands, the Department will request documentation that management of Pinelands is addressing the above recommendations, as well as all of the recommendations in the enclosed financial examination report.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each jurisdiction in which the Company is registered and to the National Association of Insurance Commissioners.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosure